

Date Mailed December 14, 2000
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BEFORE THE  
  
PUBLIC SERVICE COMMISSION OF WISCONSIN

In the Matter of Proposed Revision of Chapter PSC 116  
Wis. Adm. Code – Cost of Fuel

1-AC-197

**NOTICE OF PROPOSED RULEMAKING HEARING  
AND REQUEST FOR COMMENTS**

<b>Hearing Date:</b>	<b>Tuesday, January 23, 2000, at 10:00 a.m.</b>
<b>Hearing Location:</b>	<b>Public Service Commission, 610 North Whitney Way, Madison, WI (Amnicon Falls Conference Room)</b>

<b>Comments Due:</b> <b>Wednesday, January 17, 2000 – Noon</b>	<b>Address Comments To:</b> Lynda L. Dorr, Secretary to the Commission Public Service Commission P.O. Box 7854 Madison, WI 53707-7854 FAX (608) 266-3957
<b>FAX Due:</b> <b>Tuesday, January 16, 2000 – Noon</b>	

The Commission proposes an order to amend ch. PSC 116, Wis. Adm. Code, relating to fuel cost adjustments for electric public utilities. The Commission submitted a copy of the proposed amendment to the Joint Legislative Council Staff on the date of this notice.

**ANALYSIS PREPARED BY THE COMMISSION**

Statutory authority: ss. 196.02(1), and (3), 196.20(4)(d), and 227.11, Stats.  
Statute interpreted: ss. 196.20(4) and 196.192(2)(a), Stats.

On August 16, 1984, the Commission issued an order establishing the electric fuel rules, ch. PSC 116, Wis. Adm. Code, pursuant to s. 196.20(4)(d), Stats., that abolished use of an automatic fuel adjustment clause in Wisconsin. The order was published in the Register in October 1984, No. 346. It became effective on November 1, 1984.

The Commission determines the amount to be charged for Wisconsin retail electric rates in periodic rate case proceedings. The process includes a forecast of the utility's revenues and

expenses for a representative test year when the rates will be in effect. The forecast is comprised of test year expenses and revenues that are monitored under the fuel rules, ch. PSC 116, Wis. Adm. Code, and other costs. For most forecast costs and revenues, differences between the projections and the actual amounts realized for costs will usually not cause rate changes. However, for the costs and revenues monitored under the fuel rules, a variance between forecast and actual costs can trigger a rate change. Chapter PSC 116, Wis. Adm. Code, defines the costs and revenues included in the fuel cost monitoring system and the process to determine and implement such a rate change.

An emergency revision to the fuel rules was published June 5, 2000. On June 20, 2000, the Commission issued a notice of rulemaking for emergency revision of ch. PSC 116, Wis. Adm. Code. A hearing was held on August 4, 2000. The definition of “fuel” in s. PSC 116.03(4) was amended and s. PSC 116.04(6), Wis. Adm. Code was created to allow investor-owned utilities the ability to incorporate the cost of voluntary curtailments of service into the cost of fuel to increase electric reliability in Wisconsin for the summer of 2000. The emergency rule changes expired on November 3, 2000.

The permanent rule amendments consider three general classifications of changes: revisions in the permanent rules to incorporate alternative sources of power, including the emergency provisions that expired November 3, 2000; a proposal for a deferral process to limit the cost risk of fuel cost volatility; and revisions to accurately reflect how the statute is being administered.

**1) Retail customer tariffs under s. 196.192(2)(a), Stats., for voluntary curtailable load**

Section 196.192(2)(a), Stats., allows an electric utility to buy down firm customers’ demand as a way to meet system peak demand. The firm load curtailment program provides the utility an alternative to avoid expensive fuel or purchased power costs and to make power available for other firm customers when the demand for electricity exceeds available supply.

Under the existing rules the costs of this program would be classified as non-monitored expenses or as reductions in revenue. The emergency rule change included this cost in the monitored fuel costs during the summer and fall of 2000. The emergency rule expired on November 3, 2000.

**2) Air conditioner load control programs**

In order to avoid expensive power purchases, utilities can pay customers to reduce the air conditioning load. This program also makes power available to other firm customers when the demand for energy exceeds the available supply. Utilities incur this cost as either a credit to the monthly fixed customer charge or as an expense per occurrence, credited to the customer’s bill. The first method requires no fuel rules consideration. It may be appropriate to monitor the cost of the second method in the fuel rules. The estimate of the cost included in utility rates is based on the charge per occurrence and the number of occurrences. Each actual cost occurrence replaces a cost included in the fuel rules.

**3) Short-term rental of generating facilities**

Utilities sometimes rent generation facilities, such as diesel generators, as an alternative source of power. The Commission classifies the rental cost as operations and maintenance expense and the related fuel cost as part of the fuel rules. This is a satisfactory approach when a utility can accurately forecast its leased obligations. The difficulty comes between rate cases when a leased obligation is less expensive than monitored fuel costs of other alternative sources of power. Monitoring this cost in the fuel rules would afford the utility the opportunity to recover part of the additional cost if its inclusion causes fuel costs to exceed the monitored range.

**4) A proposal for a deferral process to limit the cost risk of fuel cost volatility**

The deferral mechanism is intended to address extraordinary changes in fuel costs, consistent with the Commission's deferred accounting procedures. While the current rate credit and surcharge mechanisms under the fuel rules would remain in place, the deferral mechanism would be a further refinement to reflect the greater volatility seen in fuel costs in recent years. The ratepayer and shareholder risk would be capped, but not eliminated.

**5) Revisions to accurately reflect how the statute is being administered in practice**

Terminology relating to "opportunity sales" describes those revenues from power transactions currently monitored. Opportunity sales are monitored because these transactions offset fuel costs and purchased power. The addition of wording relating to "cumulative limits" is made to reflect actual administration of the rules and to make the clauses referring to monitoring consistent with each other.

An agency shall prepare in plain language an analysis of each proposed rule, which shall be printed with the proposed rule when it is published or distributed. The analysis shall include a reference to each statute that the proposed rule interprets, each statute that authorizes its promulgation, each related statute or related rule and a brief summary of the proposed rule.

**TEXT OF PROPOSED RULE**

1 SECTION 1. The note following PSC 116.02 is amended to read:

2 *Note:* These are ~~Lake Superior District Power Co.,~~ Madison Gas and Electric Co., Northern States Power Co.,  
3 Wisconsin Electric Power Co., Wisconsin Power and Light Co., and Wisconsin Public Service Corp.

4  
5 SECTION 2. PSC 116.03 (1) and (3) are amended to read:

1           **PSC 116.03 (1)** ~~An “emergency”~~ “Emergency increase in the cost of fuel” means an  
2 increase that is extraordinary and that is caused suddenly by forces beyond the utility’s control or  
3 reasonable foresight.

4           **(3)** ~~An “extraordinary”~~ “Extraordinary increase in the cost of fuel” means an increase that  
5 exceeds the range set around the utility’s monthly or cumulative estimates approved by the  
6 commission that will significantly alter the cost of fuel from the base cost authorized in the  
7 utility’s latest rate case.

8  
9 SECTION 3. PSC 116.03(4) is renumbered PSC 116.03(4) (intro.) and amended to read:

10           **(4)** (intro.) “Fuel” means coal, gas, nuclear fuel, oil, and any other type of material used  
11 to generate electricity, ~~and electricity purchased or sold wholesale.~~ opportunity sales of  
12 electricity as determined in a rate proceeding; and other commission-approved plans designed for  
13 the reliable provision of electricity, including:

14  
15 SECTION 4. PSC 116.03(4) (a) to (c) is created to read:

16           (a) Retail customer tariffs under s. 196.192(2)(a), Stats., for voluntary curtailable load.

17           (b) Air conditioner load control programs.

18           (c) Short-term rental of generating facilities.

19 SECTION 5. PSC 116.03(5) is created to read:

20           (5) “Opportunity sales” means those sales of electricity as defined in Wis. Adm. Code  
21 ch. PSC 117 for out of state sales and as defined by the commission in a rate proceeding for in  
22 state sales.

23  
24 SECTION 6. PSC 116.04 (1)(a) and (b)3. and 5. are amended to read:

1           **PSC 116.04 (1)**(a) In each rate proceeding the commission shall consider the costs of fuel  
2 in setting base rates and shall set ranges within which monthly fuel costs may vary from monthly  
3 estimates either on a monthly or a cumulative basis or both, and within which annual fuel costs  
4 may vary from annual estimates in terms of cost per kilowatt hour without being considered  
5 ~~emergency or extraordinary~~an extraordinary increase in the cost of fuel.

6  
7           (b) 3. The types, quantities, and delivered costs of fuel expected to be used by the utility.

8  
9           5. The ~~possibility of sales or purchases of excess fuel or economy energy to or from other~~  
10 ~~utilities or cooperatives~~ cost effect of known or projected purchases of electricity or opportunity  
11 sales of electricity as determined in a rate proceeding.

12  
13 SECTION 7. PSC 116.06 is amended to read:

14 **PSC 116.06 Emergency and extraordinary increases. (1)** If a utility's monthly or cumulative  
15 fuel costs exceed the ranges set in its rate proceeding, and the annual fuel costs will be affected  
16 so as to exceed the annual range, the utility may seek ~~an emergency or extraordinary~~ a rate  
17 increase in a proceeding limited in scope to the question of the emergency or extraordinary  
18 increase in the cost of fuel ~~costs~~.

19           **(2)** After a hearing confined solely to ~~fuel costs, an emergency or extraordinary~~the  
20 emergency or extraordinary increase in the cost of fuel, a rate increase based on an increase in an  
21 electric utility's monthly or cumulative costs of fuel may be granted only if the commission finds  
22 that the fuel cost increase will affect the utility's average yearly fuel costs so as to fall outside the  
23 established annual range.

1           **(3)** If an increase in rates is based on a hearing confined solely to ~~fuel costs~~ an emergency  
2 or extraordinary increase in the cost of fuel, the commission shall condition the increase on a  
3 refund of any excess revenues collected by the utility.

4 SECTION 8. PSC 116.07 is amended to read:

5 **PSC 116.07 Decreases.** (1) If a utility's monthly or cumulative fuel costs fall below the monthly  
6 ranges set in its rate proceeding, any interested person may seek a rate decrease in a proceeding  
7 limited in scope to the question of the decrease in fuel costs.

8  
9           **(2)** A rate decrease based upon a decrease in an electric utility's monthly or cumulative  
10 cost of fuel shall be granted only if the commission finds that the fuel cost decrease will affect  
11 the utility's average yearly fuel costs so as to fall outside the established annual range.

12  
13 SECTION 9. PSC 116.08 (1) is amended to read:

14 **PSC 116.08 Initiation of hearings.** (1) The commission may order ~~an emergency or~~  
15 ~~extraordinary~~ a rate ~~increase~~ proceeding under this chapter on its own motion or that of another  
16 interested person ~~or and~~ may expand the scope of any rate proceeding held under this ~~section~~  
17 chapter to consider other issues in addition to the cost of fuel.

18 SECTION 10. PSC 116.09 is created to read:

19 **PSC. 116.09 Deferrals.** (1) In setting base rates for the utility, the commission shall set an  
20 amount above and below the annual fuel cost estimate as the utility's fuel cost deferral range.

21  
22           **(2)** An electric public utility may apply for authority to defer recovery for its annual  
23 actual fuel costs in excess of the fuel costs it recovered in rates if it can show that its additional

1 fuel costs exceeded its fuel cost deferral range and that, if granted, the deferral will not create  
2 excess revenues.

3  
4 (3) The commission, after a special surcharge hearing or as part of the utility's next rate  
5 case, may grant the recovery of deferred fuel costs, if it finds that the utility's additional fuel  
6 costs exceed its deferral range and that the deferral will not create excess revenues.

7  
8 (4) The commission shall consider, on its own motion, or by application of any interested  
9 person, a credit to an electric public utility's ratepayers for a reduction in annual fuel costs  
10 compared with the fuel costs collected in rates that fall below its fuel cost deferral range.

11 (end)

## INITIAL REGULATORY FLEXIBILITY ANALYSIS

The proposed rule would apply to electric public utilities as defined by s. 196.20(4)(a)(2), Stats. The proposed rule will not affect small businesses as defined in s. 227.114, Stats.

## FISCAL ESTIMATE

This rule change has no fiscal impact. A completed Fiscal Estimate form is included as Attachment A.

**NOTICE IS HEREBY GIVEN** that pursuant to s. 227.16(2)(b), Stats., the Commission will hold a public hearing on these proposed rule changes in the Amnicon Falls Conference Room, at the Public Service Commission Building, 610 North Whitney Way, Madison, Wisconsin, on Tuesday, January 23, 2000, at 10 a.m. This building is accessible to people in wheelchairs through the Whitney Way (lobby) entrance. Handicapped parking is available on the south side of the building.

The Commission requests comments on the above issues. Any party who desires to file comments should submit an original and 15 copies as indicated in the box on page 1. Members of the public need only file an original. These comments must be received by noon on

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Wednesday, January 17, 2000. Comments by fax are due one day earlier. Fax filing cover sheets must state "Official Filing" and include the docket number and the number of pages (limit of 20 pages). File by one mode only.

The Commission does not discriminate on the basis of disability in the provision of programs, services, or employment. Any person with a disability who needs accommodations to participate in this proceeding or who needs to obtain this document in a different format should contact the case coordinator listed below.

Questions from the media may be directed to Jeffrey L. Butson, Public Affairs Director at (608) 267-0912.

Questions regarding this matter may be directed to case coordinator Sharon K. Hennings at (608) 267-2160 or by email at *hennis@psc.state.wi.us*. Hearing or speech-impaired individuals may also use the Commission's TTY number at (608) 267-1479.

Dated at Madison, Wisconsin, \_\_\_\_\_

By the Commission:

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Lynda L. Dorr  
Secretary to the Commission

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**2000 Session**

LRB or Bill No./Adm. Rule No.

**1-AC-197**

Amendment No. if Applicable

☒ORIGINAL ☐

UPDATED

**FISCAL ESTIMATE**☐ CORRECTED☐ SUPPLEMENTAL

DOA-2048 N(R10/96)

**Subject**

Amend rules for extended area telephone service related to the balloting of customers.

**Fiscal Effect****State:** ☒ No State Fiscal EffectCheck columns below only if bill makes a direct appropriation  
or affects a sum sufficient appropriation.☐ Increase Costs - May be possible to Absorb  
Within Agency's Budget ☐ Yes ☐ No☐ Increase Existing Appropriation☐ Increase Existing Revenues☐ Decrease Existing Appropriation☐ Decrease Existing Revenues☐ Decrease Costs☐ Create New Appropriation**Local:** ☒ No local government costs1. ☐ Increase Costs☐ Permissive ☐ Mandatory3. ☐ Increase Revenues☐ Permissive ☐ Mandatory

5. Types of Local Governmental Units Affected:

☐ Towns ☐ Villages ☐ Cities2. ☐ Decrease Costs☐ Permissive ☐ Mandatory4. ☐ Decrease Revenues☐ Permissive ☐ Mandatory☐ Counties ☐ Others \_\_\_\_\_☐ School Districts ☐ WTCS Districts**Fund Sources Affected**☐ GPR ☐ FED ☒ PRO ☐ PRS ☐ SEG ☐ SEG-S**Affected Ch. 20 Appropriations**

20.155(l)(g)

**Assumptions Used in Arriving at Fiscal Estimate****No additional staff or equipment are required. Reporting requirements would be minimal.****Long-Range Fiscal Implications****Agency/Prepared by: (Name & Phone No.)****Authorized Signature/Telephone No.****Date**

PSC Gordon Grant (267-9086)

12/08/2000